



Committee On Finance

Max Baucus, Ranking Member

NEWS RELEASE

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**Sen. Baucus Speaks at the WTO Institute in Shanghai, China:
Comments on WTO Case on Chinese Semiconductors**

(WASHINGTON, D.C.) U.S. Senator Max Baucus today continued his Asia tour with a speech at the World Trade Organization (WTO) Institute in Shanghai, China where he highlighted the country's economic influence in the world, while pressing China to become more actively involved in the WTO. Baucus also addressed his concerns with China's currency policies and their tax breaks for domestic semiconductor producers.

"The trading relationship between the United States and China is critical to the economic success of both," Baucus stated in his speech. "The United States is China's fourth largest trading partner and China is the United States' third largest trading partner. Two way trade reached \$180 billion in 2003. And the United States is also one of the largest foreign investors in China, accounting for more than 10 percent of foreign direct investment."

Baucus also focused on the importance of China's accession into the WTO two years ago, acknowledging the work the country has done to come into compliance with WTO obligations, but also stressing the need for China to do more.

"China has made a significant level of progress toward complying with the WTO, but now that they just passed their two year anniversary of membership within the organization, it's time for China to become more actively engaged and step up to the plate," Baucus said. "From issues of currency reform to intellectual property to being at the table in Doha Round negotiations, I am urging China to become fully engaged. The more involved the country is, the better is it for them, for the U.S. and for the world."

In his WTO speech and in meetings with Chinese leaders, Baucus raised a number of trade concerns, particularly China's weak enforcement efforts regarding piracy of intellectual property. Baucus also addressed the recent news that the United States will launch its first WTO complaint against China, charging that Beijing is violating global trade rules by rebating taxes only for domestic semiconductor producers.

"In my view, the practice of rebating the value-added tax only for domestically-produced semiconductors clearly violates WTO rules," Baucus stated at the WTO Institute. "While I would

have hoped to avoid WTO litigation, the United States will - and should - take whatever measures necessary to stop this discriminatory practice."

U.S. Senator Max Baucus's WTO Institute Speech follows:

Speech of U.S. Senator Max Baucus

Presented at the Shanghai World Trade Organization Affairs Consultation Center

March 18, 2004

"Thank you Dr. Wang Xinkuy for that kind introduction. I am pleased and honored to be here today at the premier WTO Center in China. I want to thank the Center for inviting me to speak and Mayor Han Zen for his strong support of this event. I also want to thank Peter Scher for his help during my visit to Shanghai. Few people know trade and China as well as Peter.

This is my sixth visit to China. And every time I come here, I marvel at the vibrancy and industriousness of this country and its people. I can't help but be impressed at the pace of economic development.

That is especially true here in Shanghai, which is a truly world-class city with a skyline that never fails to impress. In many ways, this city is at the leading edge of China's continuing integration into the world economy. You should be proud of what you have achieved.

The China-United States Trade Relationship

China's current and potential importance in the world economy cannot be overstated. China is the world's fifth largest exporter and sixth largest importer of goods - by far the largest trader among developing countries.

When we think about China and the world economy, we tend to think about manufacturing. But China is also the tenth largest exporter and eighth largest importer of commercial services worldwide.

That makes China by far the largest player in world services trade among developing countries - not to mention a larger services trader than Canada, Korea, or Switzerland. And it shows the incredible speed with which China's economy can adapt and capitalize on new products and markets.

The trading relationship between the United States and China is critical to the economic success of both. The United States is China's fourth largest trading partner. China is the United States' third largest trading partner. Two way trade reached \$180 billion in 2003. And the United States is also one of the largest foreign investors in China, accounting for more than 10 percent of foreign direct investment.

But bilateral trade and investment are only part of a much larger picture.

China and the WTO

Multilateral trade liberalization through the WTO - and its predecessor the GATT - has benefited the world economy enormously. It has improved standards of living and helped lift millions out of poverty all over the world.

When countries reduce tariffs, eliminate non-tariff barriers, and commit to a rules-based trading system, their economies grow. Nowhere has that been demonstrated more dramatically than here in China.

I have always believed that an economy as large and dynamic as China's needs to be a full participant in the multilateral trading system. That is why I fought hard to get the U.S. Congress to pass Permanent Normal Trade Relations legislation, which paved the way for China's accession to the WTO.

Now, two years into China's membership in the WTO, it is even clearer to me that China will play a pivotal role in the continued development of the world trading system.

As a large developing economy that has made -- and continues to make -- historic strides to open its market, China can be a real leader in demonstrating to the developing world the power of trade liberalization to transform economies. I hope that China will accept this responsibility and begin to play a major role in shaping the contours of the world trading system, now and into the future.

The Way Forward

In joining the WTO, China has taken on a monumental task. The accession package includes nearly 700 individual commitments to make legal reforms. It includes commitments to liberalize market access for more than 7000 goods and 9 broad service categories, and to eliminate non-tariff barriers on about 600 products.

Although much remains to be done, much progress has been made. I want to be sure to give credit where credit is due, because I know how big a task this is. And changes this far-reaching don't happen overnight.

By and large, I think the United States Government and the American business community realize how much China has already accomplished. Certainly the large and growing level of U.S. investment in China is a validation of its efforts.

Still, more challenges lie ahead. Businesses constantly reassess their positions and seek out those countries with the best investment climates. They will look for countries that protect real and intellectual property rights, provide legal transparency, and play by the rules.

That is why it is so important that American - and other - businesses see China engaging constructively when problems come up. Building on such a broad-based and mutually advantageous trading relationship takes constant work.

More broadly, trade needs to be a two-way street. Some of my colleagues in Congress look at the bilateral trade imbalance and argue that trade restrictions are needed. They look at the undervalued Chinese currency and propose punitive actions. I don't subscribe to that point of view.

But those of us who fight for open markets need to be able to show that markets really are open and the playing field really is level. Otherwise, our task is much harder. To that end, there are a number of key areas right now where we need to work together to find solutions.

One example is China's proposed new standard for encryption technology for wireless local area network products.

U.S. exporters who currently supply commercial wireless products to China are concerned that they may suffer significant economic losses if this standard is adopted. We need to work together to find a way to protect China's legitimate national security needs while promoting a commercial wireless market that is open and consistent with WTO rules.

Another concern is China's value-added tax on semiconductor sales. In my view, the practice of rebating the VAT only for domestically-produced semiconductors clearly violates WTO rules.

My understanding is that the Administration will announce this week that it is filing a WTO case on this issue. I would have hoped to avoid WTO litigation. But at the end of the day, the United States will - and should - take whatever measures necessary to stop this discriminatory practice.

On another topic, China's efforts in building a comprehensive legal framework for government procurement are noteworthy. At the same time, the U.S. Government and businesses are concerned with the market access issues raised by the Government Procurement Law.

In drafting and implementing new procurement regulations, care needs to be given to avoid erecting significant barriers against sale of U.S. goods and services in China.

Not a day goes by at home that I don't hear concerns about China's currency and its effect on the competitiveness of American products.

I certainly appreciate that a freely-floating currency is China's goal and that getting there will take some time. That said, there needs to be some progress on this issue in the short term. It would certainly help alleviate concerns, and avert protectionist responses, to see the development of a thoughtful roadmap toward the ultimate goal.

Finally, I would be remiss if I didn't touch on intellectual property rights. China's weak

enforcement is a matter of grave concern. Back in Washington, I've worked hard with American companies to find solutions to this continuing problem. And I've urged the Administration to devote more resources and more attention to this issue.

I'm sure everyone here is familiar with the statistics. In China alone: a 90 percent piracy rate for music, video games, and movies -- which means billions of dollars in lost revenue.

In Beijing yesterday, I saw this first hand. Within four blocks of our hotel was a sprawling market with literally dozens of stores - all selling counterfeit goods. Everybody knows about it. So why isn't anything being done about it? China has to do better.

Of course, this problem extends beyond China. There are major piracy problems in India, Taiwan, Russia, Brazil - all over the world. Tomorrow, I'll raise this issue with government officials in Thailand. We have to make progress on this issue.

Pirated products often come from some of our most competitive and cutting-edge industries. In the U.S., if we want to keep and create jobs, IPR enforcement is a good place to start. And globally, if we truly want to make progress growing economies in the developing world, then we have to end the theft of intellectual property.

In Beijing last week, China took an important step in the right direction. By amending its Constitution to protect private property, China is building a road toward a truly rules-based economy.

As the trading relationship between the United States and China grows and develops, there will be more bumps in that road. The key is that we work together to minimize them.

I believe that China has the potential to demonstrate the power of open markets to improve people's lives. To help lead the WTO forward toward greater openness and rules-based trade. And to continue to build on the mutually beneficial bilateral trade relationship with the United States.

I look forward to working with all of you as we move forward on all these fronts. Thank you.

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